

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /132 W
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R 080819Z JUN 78
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 3981
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY HELSINKI
AMEMBASSY LONDON
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 STOCKHOLM 2243

USEEC
USOECD

E.O. 11652: N/A
TAGS: EFIN, EIND, ELAB, ETRD, SW, OECD
SUBJECT: PARLIAMENT APPROVES GOS ECONOMIC POLICY BY PASSING
REVISED BUDGET BILL

REF: (A) STOCKHOLM 1802, (B) STOCKHOLM 1587

SUMMARY. DEBATE ON THE REVISED NATIONAL BUDGET FOR NEXT FISCAL
YEAR FEATURED A CERTAIN AMOUNT OF RHETORIC, BUT NOTHING NEW.
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THE GOVERNMENT POINTED TO IMPROVEMENTS IN BOTH THE EXTERNAL
ACCOUNTS AND THE RATE OF INFLATION THIS YEAR. THE
OPPOSITION COUNTERED WITH CLAIMS THAT TOO MUCH NATIONAL INCOME
IS BEING TRANSFERRED TO EMPLOYERS, AND ARGUED THAT THE TIME
FOR SOME STIMULATION OF THE ECONOMY HAS ARRIVED. THE
MOST INTERESTING COMMENTARY CAME FROM AN EDITORIAL WHICH
POINTED OUT THAT THE SKR 42 BILLION NATIONAL BUDGET

DEFICIT ACTUALLY BOILS DOWN TO A "PUBLIC SECTOR DEFICIT"
OF ONLY 6.4 BILLION KRONOR. END SUMMARY

1. THE SWEDISH PARLIAMENT, ON JUNE 2, DEBATED THE
REVISED NATIONAL BUDGET FOR FY 1978/79, DETAILS OF
WHICH WERE GIVEN IN REFTEL A. THE BILL WAS PASSED IN
ITS ENTIRETY INASMUCH AS THE SERIES OF PARTS UP FOR VOTE
RECEIVED A ROUGHLY 10-VOTE MAJORITY OVERALL FOR THE GOVERN-
MENT PARTIES. A SEPARATE BILL CALLING FOR COMPLETE RE-
MOVAL OF THE PAYROLL TAX AS OF JULY 1 THIS YEAR WAS ALSO
PASSED (REFTEL B).

2. LITTLE OF SUBSTANTIVE ECONOMIC CHANGE HAS OCCURRED
SINCE PRESENTATION OF THE REVISED BUDGET BILL IN LATE
APRIL, AND THIS WAS REFLECTED IN PRESS REPORTS OF THE
DEBATE, WHICH CONCENTRATED MORE ON THE POLITICAL STANCES
ADOPTED THAN ON FACTS AND FIGURES.

3. THE GOVERNMENT'S DETAILED CASE WAS PRESENTED BY THE
CHAIRMAN OF THE PARLIAMENT'S FINANCE COMMITTEE, MR.
BJORN MOLIN, BY BUDGET MINISTER INGEMAR MUNDEBO, AND
ECONOMICS MINISTER GOSTA BOHMAN. AS SIGNS OF CERTAIN
IMPROVEMENT BEGIN TO APPEAR, THEIR JOB IS BECOMING
EASIER AND OPPOSITION CRIES OF MISMANAGEMENT ARE BE-
COMING LESS CREDIBLE. THUS, AS THEY POINTED OUT, THE
COUNTRY'S TRADE BALANCE IN THE FIRST FOUR MONTHS SHOWED
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AN ALMOST 5 BILLION KRONOR IMPROVEMENT OVER THE SAME
PERIOD LAST YEAR, WITH EXPORTS UP 16 PERCENT AND IMPORTS
DOWN 2 PERCENT IN VALUE. UNEMPLOYMENT IS LESS THAN
DURING THE DOWNTURN OF 1971-73, WHEN THE SOCIAL DEMO-
CRATS WERE IN POWER. YEAR-ON-YEAR INFLATION IN 1978
COULD BE AS LOW AS 8 PERCENT. THERE IS A DECIDED IM-
PROVEMENT IN ORDER INFLOWS, ESPECIALLY FOR EXPORTS. AND
SWEDEN'S COST POSITION HAS IMPROVED. NONETHELESS, THE
MINISTERS DID NOT ATTEMPT TO GLOSS OVER THE FACT THAT
PRIVATE CONSUMPTION IS DECLINING, THAT INDUSTRIAL IN-
VESTMENTS ARE DOWN, THAT PRODUCTION GROWTH IS WEAK, THAT
UNEMPLOYMENT COULD INCREASE DURING THE COMING WINTER,
AND THAT THE NATIONAL GOVERNMENT WILL HAVE A BUDGET DE-
FICIT APPROACHING 42 BILLION KRONOR (SOMEWHAT LESS THAN
10 BILLION DOLLARS) IN FY 1978/79.

4. THE BUDGET DEFICIT WAS USED EXTENSIVELY BY THE
SOCIAL DEMOCRATS DURING THE DEBATE BY WAY OF ILLUSTRAT-
ING WHAT THEY TERMED THE INCOMPETENCE OF THE MODERATE-
-CENTER"LIBERAL COALITION, BUT MR. MUNDEBO POINTED OUT
THAT THE DIFFERENCE BETWEEN THE OFFICIAL ESTIMATED
DEFICIT AND THE SOCIAL DEMOCRATIC ALTERNATIVE WAS NOP

MORE THAN ONE BILLION KRONOR ACCORDING TO HIS CALCULATIONS, WHICH WAS INSIGNIFICANT IN A TOTAL BUDGET OF MORE THAN 156 BILLION. DISCUSSION OF THE BUDGET DEFICIT IN THE PARLIAMENT INDUCED DAGENS NYHETER TO COMMENT EDITORIALY ON THE SUBJECT ON JUNE 6, THUS: "AN ISOLATED FIGURE FOR THE NATIONAL BUDGET DEFICIT--BE IT 4 BILLION OR 40 BILLION--SAYS PRACTICALLY NOTHING OF INTEREST... IT IS MORE IMPORTANT TO SEE HOW THE GOVERNMENT OBTAINS THE FUNDS FOR THE EXPENDITURES NOT COVERED BY ITS REVENUES.... AND IT IS ALSO IMPORTANT TO SEE THE GOVERN-

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MENT SECTOR AS A PART OF THE PUBLIC SECTOR INCLUDING THE LOCAL GOVERNMENTS AND THE SOCIAL INSURANCE SECTOR, CHIEFLY THE SUPPLEMENTARY PENSION FUND SYSTEM. THE DEFICIT FOR THIS CONCEPT AS A WHOLE IS FAR LESS 'SCARY'--NOT 42 BUT 6.4 BILLION FOR FY 1978/79." ON THE

OTHER HAND, THE EDITORIAL DOES CONSIDER THAT THE MEDIUM-RANGE BUDGET'S FORECAST OF AN UNCHANGED CENTRAL GOVERNMENT BUDGET DEFICIT FOR SEVERAL MORE YEARS TO COME DOES GIVE CAUSE FOR CONCERN. EMBASSY COMMENT: WE BUY THIS
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LATTER OBSERVATION BUT SOME SKR 12 BILLION IN BUDGETED LENDING SHOULD ALSO BE COUNTED, THUS LEAVING A TOTAL PUBLIC SECTOR DEFICIT OF AROUND SKR 18 BILLION.

5. REFLECTING ON THE POLITICAL ASPECTS OF THE DEBATE, THE EDITORIAL OF NATIONAL DAILY SVENSKA DAGBLADET (INDEPENDENT MODERATE) OF JUNE 3 SAID IT SEEMS AS IF THE SOCIAL DEMOCRATIC PARTY OPPOSITION IS GETTING COLD POLITICAL FEET AT THE PROSPECT OF AN IMPROVED ECONOMY BY THE TIME THE NEXT ELECTIONS ARE DUE, IN THE FALL OF NEXT YEAR. RATHER THAN RECOGNIZING THE IMPROVEMENTS THAT ARE ALREADY DISCERNIBLE, THE SOCIAL DEMOCRATS ARE CHARACTERIZING THE GOVERNMENT'S POLICY AS A SORT OF CAPITALIST CONSPIRACY AGAINST THE SWEDISH PEOPLE, THE EDITORIAL NOTED FORMER COMMERCE MINISTER IN THE SOCIAL DEMOCRATIC GOVERNMENT, KJELL-OLOF FELDT, VOICED THE SENTIMENTS OF HIS PARTY ABOUT THE FALLDIN GOVERNMENT'S ECONOMIC POLICY: "IT IS PURSUING AN UNPRECEDENTED SHIFT OF INCOMES TO THE BUSINESS SECTION AT THE COST OF AN INCIPIENT NATIONAL BUDGETARY CRISIS, ECONOMIC STAGNATION, AND WIDENING GAPS IN OUR SOCIETY." HE REITERATED HIS CONTENTION THAT INSTEAD OF ABOLISHING THE PAYROLL TAX, THE COUNTRY WOULD BE IN FAR BETTER SHAPE IF THE SOCIAL DEMOCRATIC COUNTERMOTIONS WERE ADOPTED, I.E. ESTABLISHING A STRUCURAL INVESTMENT FUND, STIMULATING HOUSING CONSTRUCTION, TECHNICAL DEVELOPMENT, RESEARCH, AND INVESTMENT IN THE GOVERNMENT-OWNED COMPANIES, AND FOLLOWING THROUGH ON PARLIAMENT'S ENERGY PROGRAM OF 1975. TO ALLEVIATE THE ASSERTED DETRIMENTAL EFFECTS OF THE FALLDIN GOVERNMENT'S POLICIES ON THE POORER SECTIONS OF THE COMMUNITY, THE SOCIAL DEMOCRATS DEMANDED AN EXTRA CHILD ALLOWANCE OF 500 KRONOR AND A 10 PERCENT LOWERING OF BASIC FOOD PRICES BY FURTHER SUBSIDIZATION. MR.
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FELDT ALSO CONSIDERED THERE WAS SCOPE AND NEED FOR STIMULATING PRIVATE CONSUMPTION IN GENERAL.

6. MR. FELDT AND, LATER IN THE DEBATE, SOCIAL DEMOCRATIC LEADER OLOF PALME BOTH DIRECTED MUCH CRITICISM AT

WHAT THEY CONSIDERED WAS A CONSERVATIVE BENT IN THE GOVERNMENT, ACCUSING THE LIBERAL-CENTER CONSTELLATION OF DANCING TO THE PIPE OF MODERATE PARTY LEADER GOSTA BOHMAN. PALME SAID SWEDEN IS NOW DIVIDED INTO TWO CAMPS: ONE BOURGEOIS-MODERATE, THE OTHER SOCIAL DEMOCRATIC. THE GOVERNMENT SEEMS TO WANT TO RULE THE COUNTRY AGAINST THE LABOR MOVEMENT, HE THOUGHT.

7. PRIME MINISTER FALLDIN COUNTERED HIS LAST THRUST BY POINTING OUT THAT THE LAST ROUND OF WAGE NEGOTIATIONS HAD BEEN COMPLETED WITHOUT CONFLICT, THAT ALL CONCERNED UNDERSTOOD THE PRESENT DIFFICULTIES, AND THAT THE WAGE-EARNER ORGANIZATIONS HAD SHOULDERED THEIR SHARE OF RESPONSIBILITY FOR RESTORING HEALTH TO THE CONOMY BY SHOWING RESTRAINT. FALLDIN REGRETTED THAT THE SOCIAL DEMOCRATS HAD CHOSEN TO CONTINUE THEIR CONFRONTATION TACTICS RATHER THAN LEND THEIR SUPPORT IN TIMES OF DIFFICULTY.

8. THE GOVERNMENT WILL BE MEETING TO DISCUSS BUDGETARY MATTERS FOR FY 1979/80 ON JUNE 7. PRESS COMMENTS SPECULATE THAT A DOWNWARD REVISION OF MARGINAL INCOME TAX RATES, ADVOCATED BY THE MODERATES AND LIBERALS, AND A CHILD CARE ALLOWANCE, ADVOCATED BY THE CENTER PARTY, WILL BE THE MAIN TOPICS. THERE DOES NOT APPEAR TO BE SCOPE FOR BOTH REFORMS, AND IT MAY THEREFORE BE INTERESTING, POLITICALLY, TO SEE WHICH PARTY OR PARTIES WILL HAVE TO GIVE WAY.
KENNEDY-MINOTT

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